

Docket No. 00-0007
ICC Staff Exhibit 2.0

REBUTTAL TESTIMONY

OF

BRUCE LARSON, P.E.

ELECTRIC SECTION - ENGINEERING DEPARTMENT

ENERGY DIVISION

ILLINOIS COMMERCE COMMISSION

Neutral Fact Finder
DOCKET NO. 00-0007

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OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-000

Exhibit No. 2.0

Witness _____

Date 3-9-00 Reporter CB

1

2 Q. Please state your name and business address.

3 A. My name is Bruce Larson. My business address is 527 East Capitol Avenue,
4 P.O. Box 19280, Springfield, Illinois ~~62794-9280~~.

5

6 Q. By whom are you employed and in what capacity?

7 A. I am a Senior Analyst in the Electric Section, Engineering Department, Energy
8 Division of the Illinois Commerce Commission ("Commission").

9

10 Q. Please describe your education and professional background.

11 A. I received a Bachelor of Science Degree in Electrical Engineering from Purdue
12 University in December 1975. I am a Registered Professional Engineer. I joined
13 the Staff of the Illinois Commerce Commission ("Staff") most recently in January
14 1990.

15

16 Q. Have you previously testified before a regulatory body?

17 A. Yes, I have previously testified before this Commission and similar government
18 bodies in Colorado, Indiana, Ohio, Pennsylvania, Arizona and Connecticut.

19

20 Q. What is the purpose of your testimony in this proceeding?

21 A. I will provide rebuttal to several witnesses direct testimony regarding the
22 instructions to the Contract Summary Form.

23

24 Q. What process has Nicor Energy, LLC and Illinois Power proposed to use
25 to unbundle retail contracts?

26 A. Mr. Hastings from Illinois Power proposes to use what he calls “actual
27 market forwards” to unbundle retail contracts. Mr. Bailey from Nicor
28 Energy, LLC proposes to use historical day-ahead market prices to
29 unbundle retail contracts. Both of these proposals simply substitute the
30 chosen market index for the NFF process.

31 Q. Do you believe this is appropriate?

32 A. No. These methods allow the reporting entity to simply pick its market
33 value. The proposed methods are simply a way to use a market index
34 instead of the neutral process.

35 As an illustration, the unbundling equation from the Act is:

36 ***Market Value = Bundled Rate - Delivery Service Charges - Transition***
37 ***Charges***

38 We know two of the charges. The known amounts are the Bundled Rate
39 from the contract, and the Delivery Service Charges. Rearranging the
40 above equation so the known charges are on one side of the equal sign,
41 and the unknown charges are on the other side of the equal sign results in
42 the following.

43 ***Market Value + Transition Charges = Bundled Rate - Delivery Service***
44 ***Charges***

45 Let us assume the bundled rate is, 5¢ and the delivery service charge is
46 1¢. Given those charges, we know that:

47 ***Market Value + Transition Charges = 5 ¢ - 1 ¢ = 4 ¢***

48 Then we choose a market rate, either a forward rate used at the time or a
49 historical rate over a past period, and subtract it from the 4 ¢. If we decide
50 the market rate is 3 ¢. The equation is then:

51 ***Market Value + Transition Charges = 4 ¢ or***

52 ***3 ¢ + Transition Charge = 4 ¢ or Transition Charge = 1 ¢***

53 Substituting in the original equation from the Act yields

54 **Market Value = Bundled Rate - Delivery Service Charges - Transition**
55 **Charges**

56 ***Market Value = 5 ¢ - 1 ¢ - 1 ¢ = 3 ¢***

57 The market rate calculation returns a result that is the original assumption.

58 This example proves the circular nature of the calculation. In essence,
59 the person reporting the contract summaries substitute their judgement
60 and their index for the judgement of the Neutral Fact Finder.

61

62 If one uses the prior year's transition charge to calculate the market value
63 using the equations above, the result is a perpetuation of the **original**
64 market value. This method does not produce any new information.

65 However, it is preferred over incorporating market forwards or other
66 indices.

67 Q. Do you have any comments regarding the Staffs proposed instructions,
68 ICC Staff Exhibit 1.0 Schedule B?

69 A. Yes. In section F. **Reliability/Interruptibility** (b) states “[a]lso provide
70 information regarding the delivery obligations of the selling entity”. I
71 believe that the word “delivery” in that sentence could be misleading. The
72 intent of the sentence was to elicit from the reporting party the contracts
73 location in the supplier’s interruption queue. It was not about transmission
74 delivery. I recommend that the word “performance” be substituted for the
75 word “delivery”.

76

77 Q. Do you have an opinion regarding Dr. **O’Conner’s** proposed method for
78 making an adjustment for “load shaping and load following”?

79 A. Yes. Dr. **O’Conner** has proposed that the Neutral Fact Finder should
80 adjust the market value for load shaping and load following. As a
81 preliminary matter, I believe all “adjustments” to the Neutral Fact Finder’s
82 results should be performed outside of the neutral process. The parties
83 litigated this issue already in Docket 98-0769 under the label of load
84 shape adjustments. The Commission decided that load shape
85 adjustments be considered in the context of **§16-112(k)** tariff proceedings
86 (See Order 98-0769 **p14-15**)

87

88 The parties addressed this issue in the utilities’ delivery service tariff
89 tilings. The Commission ultimately chose the method proposed by Staff
90 witness Zuraski. Mr. Zuraski’s method is very similar to what Dr.

O'Conner is proposing in this case except that it uses a different source of hourly cost.

Dr. O'Conner describes his method on page 11 of his testimony. The method requires the use of utility estimates of their own hourly marginal costs. Estimates of utility marginal costs have been the subject of **never-**ending debate for years. In my opinion, I believe the Customer Choice law deliberately steered away from this controversial subject because of its history. Also, based upon my many years of experience with computer models used to calculate marginal cost, I do not believe those models will produce the type of hourly variation that Dr. O'Conner expects. Model inputs and outputs are all based on "expected values". The use of expected values smooths out the variations that actually occur. Finally, Dr. O'Conner provides no empirical evidence that the Zuraski method is **insufficient**.

Q. Do you have a proposal regarding this issue?

A. Yes. The Order in this case should request the Neutral Fact Finder to address the issue of "load shaping and load following" in the Neutral's report. The neutral could address this issue by identifying contracts that supply load following power and energy, if any, or to generally indicate whether the load shape of the contracts used are flat or not.

113 Q. Does this conclude your testimony?

114 A. Yes.